

2004-2005 Budget Address

Madam President, Members of City Council, Good Morning.

As we gather today for the presentation of my 2004-2005 budget our voices join a chorus rising in city halls and council chambers across America.

Our nation is at war. The economy is sluggish. State funding cuts are deep. The cost of health care and pensions is staggering.

These facts are universal. Every city is feeling the pain.

Here in the great City of Detroit this is our reality. But today I present a balanced budget for 2004-2005 that – while making cuts and calling for sacrifice – demands new accountability and reengineering that can start us back toward solid financial ground.

At the very beginning of this process, as we began to crunch the numbers for 2004-2005, the total budget gap was \$333 million – a combination of a \$69 million deficit from last year, and a \$264 million shortfall for next year.

Today, I will explain how that happened, and I will also address the forces and culture that caused it.

I will explain how we continue to better serve citizens by changing the way we do business – and how we save millions of dollars in the process.

I will detail some tough cuts in the City of Detroit for next year – cuts that are necessary as we Grow Detroit in these tough economic times.

I want to begin by giving you some perspective, some examples of what is happening in other cities today.

In Cleveland, the financial situation is so dire the city cut nearly 500 employees including 252 police officers and 47 firefighters. City services have been slashed. There were even calls to eliminate public trashcans to save money.

In Baltimore, cuts in the ranks of police and firefighter are also likely as the mayor has proposed eliminating 500 jobs and cutting city services. The mayor's proposal is being called the most drastic in over 20 years. The mayor says he has no choice.

It's a similar story in Pittsburgh, a city that's been teetering on the brink of bankruptcy. Uniformed personnel are being cut as centers for senior citizens and recreation are being shut down.

Even San Francisco is suffering. With the internet-crazed 1990s long gone, the city has been hit with a high-tech hangover and a budget shortfall that could top \$300 million.

Back at home, the State of Michigan is wrestling with a budget gap of \$1 billion – and our own school system in the City of Detroit recently announced it is being forced to cut 3,200 jobs.

As I said, everyone is feeling the pain. Still, here in the City of Detroit, we face some challenges that are unique to us.

The fact is Detroit's revenue base makes us even more vulnerable to economic fluctuations than other cities.

Most cities get the majority of their revenues from property taxes, historically a very stable source of funds.

Just take a look at our neighbors. Property taxes provide 77 percent of Dearborn's budget, 66 percent of Ann Arbor's budget, 62 percent of Farmington Hills' budget, 60 percent of Troy's budget, and 58 percent of Warren's budget.

In Detroit, 12 percent of our revenue comes from property taxes – far and away the lowest of any city in Michigan.

Our biggest sources of revenue are income taxes and state revenue sharing funds, both extremely vulnerable to fluctuations in the economy. Property tax revenues rank third, followed by our newest source of income, casinos.

The relatively small percentage of revenue we receive from property taxes is the result of several factors.

We all know that property values in Detroit have lagged far behind property in the suburbs. Beyond that, we simply do not have as much property to tax as we once did.

From 1974 through 2001, we demolished over 140,000 abandoned buildings – buildings that once housed families or businesses, buildings that once generated property taxes.

The City has also been hobbled by Proposal A that Michigan voters approved in 1994 and put a cap on property taxes.

Since 1994, the value of property in Detroit has more than doubled to more than \$12 billion, an average growth rate of 9.3 percent. But because of Proposal A, the state says the taxable value is less than \$8 billion.

Bottom line: If Proposal A was not in effect and we could tax property at its true value, we would have an additional \$100 million for our General Fund.

We are not alone in this either.

The Michigan Municipal League recently issued a study that said the squeeze of Proposal A has created a situation where – quote – “local communities in Michigan are on a conveyor belt to crisis and service cuts.”

Compounding our problem is the fact that the State of Michigan has repeatedly violated a 1998 agreement with the City – and slashed the amount of money we receive in revenue sharing.

If the State had kept its word and kept us whole, we would have an additional \$43 million in the budget right now. Instead we must make up for that money somewhere else.

Broken promises from the state, and budget shortfalls and deficits are nothing new. This has been the reality in Detroit since the 1960s.

But another reality we cannot ignore is that in the 1990s – the decade when we had the money to invest in infrastructure and reengineering and stem the financial tide – the City instead threw open the floodgates of surplus spending.

During the 1990s, as our population continued to drop, the size of our government and the number of employees only grew.

The amount of money spent on employee overtime in the 1990s doubled by tens of millions.

Law firms racked up untold millions with new city contracts. And tens of millions more were poured into cost overruns on projects like the DRMS computer system.

But then the economic bubble burst, and reality set in.

When the Kilpatrick Administration took office, it was our job to pick up the pieces and – with an ever-increasing shortfall – put the budget back together.

Our first year, we inherited a \$75 million deficit in 2001-2002 budget. We rolled up our sleeves, and closed it.

The next year the potential shortfall totaled \$94 million. We eliminated that as well.

In 2003-2004 – the current fiscal year – we faced a potential \$191 million shortfall. We've taken care of that too.

You do not need a chart to see the trend. The gap that exists between the City's revenues and expenses is growing wider each year. If we do not change the way we do business in the City of Detroit we will pay the price.

As I said at the beginning of this address, the projected shortfall for 2004-2005 was \$264 million when we started the budget process.

Beyond the forces I have already described, the single biggest cause of this current budget shortfall is the exploding cost of funding healthcare benefits and pensions for City employees.

In fiscal year 2004-2005, the cost of paying for our employee healthcare and pensions is increasing by \$114 million. That is an increase of 22 percent.

Despite these challenges we have once again eliminated the shortfall.

The budget I present to you today is balanced. It also calls for changes – so our financial future no longer hangs in the balance.

To eliminate the shortfall of \$264 million, we have not hit every department with an arbitrary cut.

Rather we have continued a management process of examining each department, identifying inefficiencies or duplication of services, and eliminating them.

We have had to make some hard choices in the process. But we have done so with a goal of making government more efficient and more effective. We have strived to make cuts in those areas where we know – that with smart management – we can do more with less.

The legendary Jack Welch, the former Chief Executive Officer of General Electric once said, "It's in the worst of times that things get fixed."

Cutting budgets does not have to mean cutting services. It can mean finding smarter ways to get the job done. That's what this administration has been working to do since we took office.

Examples of our success include the restructuring of solid waste and bulk trash pickup. For decades the system had been haphazard and, increasingly, costs were going through the roof.

In the past year we have reorganized the system to serve citizens more efficiently, and with fewer employees. The number of stops on each route has increased, and we are realizing major savings by not having trucks criss-cross the City.

We also deployed 1,100 litter containers throughout Detroit and cleanup crews to work two shifts, 7 days per week in the Central Business District. As a result, the City is cleaner, trash collection is more efficient, and we are saving money.

Even as we managed with reduced resources, we have been able to bring about innovative change in the way we do business.

Last year I told you we would cut the grass in our city parks on a 10-day rotation, something that had never been done. We did it.

This winter, for the second year in a row, we had a successful snow removal program. That too had never been done before.

Last year we resurfaced 160 miles of streets, the most miles ever completed in one year.

Last year we also moved responsibility for maintenance of trees and grass on boulevards, greenways, and beltways from the Recreation Department to a new team at DPW.

This has significantly improved our ability to take care of some 200,000 trees. The team is taking down dozens of dangerous or diseased trees every week – with an eventual goal of planting new trees in their place.

One of the cornerstones in our process of reengineering is the Program Management Office that was created last year.

Under the direction of Chief Financial Officer Sean Werdlow, the Office is making dramatic progress in modernizing departmental practices that in some cases go back almost to the beginning of the last century.

As you may remember, many of the problems with the DRMS system were rooted in the fact that the City was trying to adapt computer software to fit woefully outdated business practices.

With Sean's guidance we have flipped the script. Instead of trying to adapt state-of-the-art software to a department's ancient billing system, we are changing the billing system and bringing it into the 21st century.

Just by updating our own systems instead customizing the DRMS software, we will save \$3 million in the coming fiscal year.

The PMO is also upgrading our property assessment system to better serve citizens. The Office is replacing a computer system that's been around since I was in the second grade – with a system that will allow property owners to get tax bills at their local neighborhood city hall.

Additionally, the City is developing a centralized accounting system for departments to better track cash flow, do monthly budget-goal reports, and closely track overtime, to name just a few examples.

At DPW, we are working to create a centralized, computerized fueling and inventory system that will enable us to keep much closer track of parts and the amount of fuel we use.

The Public Lighting Department is changing a billing system that may go all the way back to when the department first opened for business.

For years, meter readers have gone out with a little black book, scribbled down all those important numbers, and then handed the book the finance people. Soon, meter readers will punch data into a handheld device and download it directly into the billing system. This will save time, and money.

Clearly, we know how to do more with less – and do it better. We know how to control costs – and be more efficient.

Constraints on our resources do not have to mean constraints on innovative thinking or finding more efficient, effective ways to deliver needed services.

In this balanced budget I present today, we have identified a number of other inefficiencies that have been built into the City budget over the years. And we are moving to fix them.

For instance, an exhaustive department-by-department review has found many employees who worked through the free-spending 1990s are still using the City's budget as a cash machine to pile up excessive overtime.

Many employees have been literally doubling their salaries. This has become a way of life. In the current fiscal year we will spend more than \$90 million on overtime. That is unacceptable.

Excessive overtime is the result of bad planning and bad management. We have found many situations where employees assigned overtime to themselves, with no oversight by a supervisor. That is unacceptable. Good management practice dictates that we get it under control. We are going to do that.

The budget I am presenting to you anticipates reduced overtime in our city departments. Our projected combined overtime budget for all departments for 2004-2005 is \$59 million, a reduction of 35 percent from this year.

But we are doing more than anticipating a reduction. We are creating a management structure to ensure that it happens.

Each director will be given a goal for the reduction of overtime in his or her department. Their progress will be reviewed regularly and necessary adjustments will be made. But ultimately if a director does not meet their goal, I will personally cut their paycheck. They will see a reduction in their own compensation.

Certainly I recognize that some overtime is unavoidable – especially in our public safety agencies, and in times of emergency.

We can never eliminate overtime completely, but we can use those dollars wisely and hold people accountable.

Some of our directors have already made tremendous progress in reducing overtime.

For instance, Corporation Counsel Ruth Carter has reduced overtime in the Law Department by 93 percent in just two years.

Victor Mercado has reduced overtime in the Water and Sewerage Department by 50 percent while reducing outside contractors at the same time. I believe others can do the same.

We also are greatly reducing the number of ‘take-home’ vehicles assigned to employees. As with overtime, this is a practice that can take on a life of its own – and with the City paying an average of \$5,800 per year per car, the money quickly adds up.

In the budget for 2004-2005, the number of vehicles assigned to City employees is cut by 57 percent – from 243 vehicles to 138. An employee must have a work-related reason to have a car. No longer will it be considered a perk of the job.

We have taken a hard look at the hundreds of leases the City has for office space by having a professional facility manager review every single lease.

We discovered that in many cases the City is paying double the market rate.

As these leases expire, or there is a window to revisit a deal, we will aggressively renegotiate terms or consolidate space. This will result in a savings of 15 percent – or \$2 million – in the current fiscal year alone.

Contract services are under intense review as well.

Citywide we have reduced professional and contractual services by over \$20 million, or 9 percent. General Fund contracts were reduced by more than \$8.5 million, or 13 percent.

Savings are also being realized by reducing the subsidies the General Fund provides other City operations. For example we have cut the subsidy to the People Mover by \$2.5 million without a reduction in service – and we have eliminated the \$1.9 million subsidy for Building and Safety Engineering.

We are serious about reducing costs.

We also had to make tough decisions in staffing to close the \$264 million shortfall – and this budget includes job cuts.

In 2004-2005 we are eliminating 263 vacant positions in various City departments and we are forced to lay off 377 employees.

Also, there are 357 employees of the Housing Commission who are not in this budget. They are not affected by these job cuts. They are simply not in the budget because the Housing Commission is officially separating from the City and becoming an independent entity prior to the start of this budget.

Two departments that will not see layoffs of sworn personnel will be the Police and Fire Departments.

No police officers, firefighters or EMS technicians will be laid off in fiscal year 2004-2005.

In fact, we will continue recruiting new classes to ensure our services are at full strength. At this time in our city's history, I will not do anything that might reduce the level of protection we offer our citizens.

I will, however, demand the same financial discipline from police, fire, and EMS that will govern other departments. The management of overtime will be focused and relentless.

One area of city services that demands an overhaul and a change in culture is our bus system.

We owe it to the 120,000 people who use our buses each day. We must improve bus service.

Most people who use DDOT do not have other options for getting to work or school or to the doctor's office. They need us to get them there.

For at least a generation, the City of Detroit has allowed the Department of Transportation to virtually drive itself – and over the years the department has gone woefully off course.

DDOT is an enterprise department which means it should be self-sufficient. Instead, the City is propping it up with subsidies of \$80 million and ridership is at an all-time low.

By any measure, the Detroit Department of Transportation lags miles behind other urban bus systems in the efficiency of its operations.

For example, the industry average for operating a bus is 65 cents per mile. We spend well over 1 dollar per mile.

In most bus systems, mechanics spend about 880 hours per year working on each bus. DDOT is not even remotely close to that. Our mechanics spend nearly 2,200 hours on each bus, each year.

Even more incomprehensible is the fact that we have far more mechanics. The industry average is one mechanic for every 6 or 7 buses. At DDOT we have one mechanic for every two buses.

Some have tried to blame the trouble at DDOT on the buses themselves. For the record, the age of our fleet is no excuse. The industry average age of a bus fleet is 7.9 years. DDOT is actually less than that. The buses in our fleet average 7.7 years.

Clearly, at a time when the City of Detroit must be more efficient, we must make changes in DDOT.

The budget I present today includes the beginnings of a plan to reengineer the department and provide better service to citizens.

In the jobs cuts I just announced, the largest single group affected are employees in the maintenance division of DDOT where 112 employees will be laid off. This will bring us closer to the national average in staffing and allow us to better benchmark against national averages as we overhaul DDOT operations.

The positions being eliminated include 67 coach service attendants who clean and fuel the buses; 28 auto mechanics who provide only certain types of bus maintenance; and 10 general auto mechanics who are trained to do all types of bus repair.

Cleaning and fueling of buses will become the responsibility of the remaining 211 general auto mechanics who – through an reorganization to increase efficiency – will have plenty of time to get the job done.

With the reduction in the ranks of mechanics our ratio will be one mechanic for every 5 buses – a number that is still not completely acceptable, but better than where we are today.

In the Motor City, DDOT should be setting the national standards for quality, excellence, and efficiency. This administration and new Director of DDOT Norman White are committed to ensuring that happens.

In addition to making carefully selected cuts in departments, we have also found a number of areas that can be fixed to provide badly needed additional revenue.

In the current fiscal year the Finance Department contracted with a firm to review the fees many of our departments charge for documents and services to the public. Some had not reviewed their fee structure in years – and the fees do not come close to covering the cost of the service involved.

The departments being reviewed include DPW, Recreation, Planning and Development, Health, Police and Fire.

Services involved include fees we charge developers for land assembly, refuse collection, and costs for providing documents. We expect the implementation of an updated fee structure will mean an additional \$4 million in revenue in fiscal year 2004-2005.

Also, the Assessor Division of Finance, with a grant from the state, is auditing personal property tax payments of a number of businesses to ensure their tax returns accurately reflect the machinery, equipment and other items that are subject to Detroit's personal property tax. We estimate this effort will capture an additional \$3.5 million in personal property taxes.

The recently concluded parking ticket amnesty program conducted by the Municipal Parking Department also was a tremendous success. They are still processing the final payments, but I can report to you that it yielded almost \$3 million in delinquent parking tickets receipts.

This budget also establishes one new DDOT fare. In accordance with federally prescribed guidelines, DDOT will establish a half-price, 75-cent bus fare for disabled riders.

This is nothing new in the bus industry as the SMART bus system – and every major city except Detroit – charges disabled riders. For DDOT, this will produce \$2 million in revenue.

This administration is committed to our senior citizens – and our seniors will continue to ride DDOT for free.

Beyond the cuts in expenses and increases in revenue from greater efficiencies, there are some budget realities that happened before we took office or were beyond our control – and must be tackled in other ways.

As you know the City faces a court judgment regarding the amount of pension payments due to the Detroit Police and Firemen's Retirement System for the fiscal ending June 30, 2003.

The amount in dispute is approximately \$35 million plus interest, and is being appealed to the Michigan Court of Appeals. However, the City's independent auditors required the City to record this judgment in fiscal year 2003.

Also, terrible mismanagement in the Housing Department during the 1990s left it millions of dollars in the hole – unable to pay a bill of \$18 million to the City for services we had provided.

While this administration is continuing to address the problems at Housing, it simply does not have the money to pay the City. As a result the City was compelled to write off those outstanding balances.

These two events make up the vast majority of the \$69 million deficit the City experienced in fiscal year 2003.

To address that deficit I am proposing selling \$61 million in Fiscal Stabilization Bonds, the difference will be made up from an \$8 million withdrawal from the Budget Stabilization Fund. After this withdrawal, the Fund will be effectively at zero.

This action combined with the proactive management measures we have already taken – including a hiring freeze, overtime cuts, and aggressive revenue collection – will allow us to end this fiscal year, balanced.

This budget also proposes the issuance of \$80 million in pension bonds to satisfy all the unfunded liabilities associated with our pension funds.

This is a one-time contribution for this year that will produce savings for the city over the next 10 to 12 years by paying these obligations up front for the General City and Police and Fire pension funds.

The Kilpatrick Administration is committed to fulfilling its obligations to retirees – and ensuring City employees have a secure financial future.

That said, it will be the responsibility of the pension trustees to manage that money wisely.

Finally, I am proposing the sale of \$61 million bonds to fund a Risk Management Fund payment. This will provide additional revenues and prevent even deeper and more painful cuts in basic services.

It will give us the time to take an even more intense look at our fiscal situation and determine whether we need to find additional revenue streams to keep our heads above water.

Every department is sustaining a cut in this budget – and this budget also includes cuts in funding for both my office and for Your Honorable Body.

As you know, the budget for the Mayor's Office over the last two years has remained relatively flat, with a combined increase of 1.5 percent over the two years since we took office.

The cuts I am proposing for the Mayor's Office eliminate that increase and put it back at the level allocated in 2001-2002, before my administration took office.

On the other hand, as you know, the budget for Your Honorable Body has grown in the past two years by more than 28 percent – a total of \$3.6 million.

This budget proposes a reduction of a little more than half of that. Even with the reduction you will still be more than \$1.2 million over what your budget was in 2001-2002.

At a time when we are asking our employees and our citizens to sacrifice, we must lead by example in adopting prudent, responsible budgets for ourselves.

This budget provides for the establishment of the Office of Homeland Security as a separate department, rather than as a part of the Fire Department.

There are no costs associated with this change, but the separation of this function as a separate department is vital. Beyond focusing our City's preparedness, this change will streamline the process of obtaining vital grants and homeland security funding from state and federal sources.

This budget also creates a Department of Administrative Hearings to streamline code enforcement within the city related to quality of life issues such as zoning violations, property maintenance, and illegal dumping.

Governor Granholm signed amendments to the Home Rule Act and the Revised Judicature Act in January that allow us to set up administrative hearings procedures to strengthen the enforcement of code violations.

This new department will implement council's intent when you adopted a municipal civil infraction ordinance back in 1997. We project that we will process roughly 70,000 blight violations in the first year.

This department will allow us to focus our efforts on those who disrespect the condition of their land and property, and our City. It will provide a coordinated effort to go after those who refuse to do their part to keep this City clean.

Creating this department will mean we have the ability to prosecute unlimited numbers of code violations, efficiently hear and adjudicate cases, and collect fines through garnishments and liens if necessary.

I believe this department will make a significant improvement in the quality of life for all Detroiters. Chicago has had great success with a similar approach and we hope to emulate their success. We mean business.

I mentioned earlier that the Housing Department is not included in this budget since it will become autonomous.

However, you will find a \$1.2 million appropriation to pay for supplemental security services to protect our seniors who live in Housing Department units.

Now begins the process of reviewing this budget. Each of you has received individual copies in your offices this morning. Others who are interested in learning more can do so by logging onto the City of Detroit website.

In my State of the City message I said we must Dare Mighty Things together, to Grow Detroit.

Dealing with the crushing economic forces that are squeezing Detroit and cities across this nation is a Mighty Thing.

Making tough management decisions, reengineering government, changing a work culture, and paving the way to a solid financial future. These are Mighty Things.

They do not happen overnight, and they require hard work to get them done.

Management guru Jack Welch always held to the belief that you “face reality, then act decisively.” That’s what this budget does. That’s what my administration is about.

But Jack Welch also said “by reaching for what appears to be the impossible, we often actually do the impossible.”

The challenges before us are daunting – and some may seem impossible – but we can overcome by reaching together.

This budget is the next step in the process to turn the tide, effect real change in government, and start us back toward solid financial ground.

Thank you.